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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001621

C O R R E C T E D C O P Y CORRECTED SUBJECT LINE

SIPDIS

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TAGS: [PGOV](#) [EFIN](#) [EAID](#) [PREL](#) [IZ](#)  
SUBJECT: GOI-DONOR CO-FINANCING MECHANISM EVOLVING, BUDGET  
DYNAMICS CHANGING, SAYS MOPDC

REF: BAGHDAD 1391

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Classified By: Acting CETI Minister Todd Schwartz for reasons 1.4(b) and (d)

¶1. (C) Summary: According to Ministry of Planning and Development Cooperation (MoPDC) Senior Advisor Faik Ali Abdalrasool on May 21, the GOI co-financing mechanism that it will headline at the upcoming International Compact with Iraq Ministerial on May 29, is designed to allow international donors to partner with the Iraqi Government on development projects. Under this mechanism's still-evolving framework, donors would provide technical and capacity-building assistance and the GOI would provide the necessary capital. In a wide-ranging discussion of the Iraqi budget, Faik noted that, ultimately, spending authority should devolve from line ministries to the local governments for more efficiency and transparency. To facilitate this process, the MoPDC is training its employees in how to do feasibility and cost-benefit analysis studies to enhance their ability to prioritize projects and more effectively spend budget resources. End summary.

¶2. (SBU) Ministry of Planning and Development Cooperation (MoPDC) Senior Advisor to the Minister Dr. Faik Ali Abdalrasool outlined the genesis of Iraq's proposal in the Annual Report of the International Compact with Iraq for co-financing projects with bi- and multi-lateral donors with Econoffs May 21. (Note: Reftel has the text of the proposed co-financing mechanism. End note.)

¶3. (C) According to Dr. Faik, the GOI received for discussion a paper from the UN proposing a co-financing mechanism that would incorporate international assistance. This is an issue GOI had been kicking around for the past two years. One major hurdle the GOI faced in its internal discussion was solving the problem of coordinating the timing and procurement of projects that were both part of the Iraqi budget and, in parallel, financed and directed by an international donor. Pressure from the donor community at the October 2007 International Reconstruction Fund for Iraq (IRFFI) Conference in Bari, and the resultant "assistance" from the United Nations, led to the draft proposal that was presented at to the Iraq Strategic Review Board (ISRB) and the International Reconstruction Fund for Iraq on May 3 (ref A).

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Co-Financing: Still An "Ongoing Process of Refinement"  
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¶4. (C) Iraq plans to offer its proposed co-financing mechanism as a major deliverable at the upcoming May 29 International Compact with Iraq Ministerial Meeting in

Stockholm. Faik said that its proposal would not be a final product, but expected that there would be "an ongoing process of refinement." The Iraqi Government hopes that the co-financing mechanism will accelerate budget execution, and that international donors will focus on the "soft aspects" of projects such as technical assistance and implementation know-how. The Iraqi budget will provide the "hard" portion in the form of capital expenditures. (Note: this is a different take from UN U/SG Gambari's focus on "trade, joint ventures, investment" as relayed in Ref B).

15. (C) The ISRB and the Ministry of Finance must agree on any budget process or project. Faik noted that co-financing initiatives would move in parallel with the Iraqi budget process. "Any partner can look at the budget and offer to co-finance any project," he said. Any supplemental budget spending would also be eligible for co-financing.

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MoPDC's Goals for Future Budgets: Basic Needs  
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16. (C) Despite increased oil exports and income, the Iraqi Government is still unable to meet "basic social needs" as a result of the investment gap dating from the 1980s. This has created unacceptable living conditions for the Iraqi people and therefore the GOI should focus its future budget spending, at both the Provincial and Central levels, on meeting basic public needs and providing practical assistance to the electrical, educational, health, and water sectors, said Faik. "But how do you choose between a school and a hospital, or a hospital and water treatment facilities?" he added.

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"Project After Project With No Feasibility Studies"  
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17. (C) According to Faik, the Government of Iraq "has been doing project after project without any feasibility studies." This is a "real problem" he commented. He has requested that the Management Systems International (MSI) contractors at the MoPDC to train 20 Iraqis on how to do feasibility studies. These 20 would then train an additional 200. The MoPDC is also holding workshops to teach its employees how to evaluate projects for the budget. This should increase efficiency in both forming and executing the budget, he said. His goal is that the MoPDC will create a prioritized list of both needs and locations. His priorities would be first electrical and oil/gas infrastructure. Then, clean water, schools, primary health care centers, and finally hospitals. (Note: Separately, at Planning Minister Ali Baban's request, USM-I Senior Advisor at MOPDC is developing a "cost-benefit analysis from an economic/social perspective" training module for MOPDC and other GOI staff to assist them in evaluating capital proposals.)

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Provinces Should Have Primary Spending Authority  
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18. (C) Within the next four years, Faik said, the vast majority of spending authority needs to be transferred to the provincial level in order to increase efficiency. This will likely be strongly opposed by the line ministries that are accustomed to spending money. Under this developing system of decentralized spending, ministries would still be able to plan and oversee the spending, but giving the provinces authority and responsibility for spending will ultimately increase efficiency and transparency in the budget process.

19. (C) COMMENT: We noted Dr. Faik's lack of concern for the inflationary implications of Iraq's burgeoning government revenues, driven by oil exports, and the parallel increase in

government spending, especially at a time when budget execution capacity was underdeveloped in many areas. Asked whether he had any concerns at violating one of the key -- and few "hard" -- conditions of the IMF SBA, Faik replied that inflation in Iraq is much higher than reported and structural in nature. Thus it would be best to use the GOI's money now on critical infrastructure improvements that will help grow the Iraqi economy. While it is true that Iraq needs billions in infrastructure improvements, its capacity to absorb those billions remains at the limit even with all the additional training and support the USG is providing.

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